TRIPTYCH BANKSIDE – SOUTHWARK – THE EAST TOWER LAUNCHES IN Q4 2022

Molior London

Quarterly Analysis

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RESEARCH TEAM

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DISCLAIMER

Executive Summary

This report is about two stories: one that is currently unfolding in London's Build to Rent (BTR) leasing market, and another in London's new homes sales market.

BTR leasing and availability

The speed at which leasing activity has picked up in recent months is mind-blowing, particularly for leasing teams that had to weather the darkest days of the pandemic.

Two leading examples are Dandi Wembley and Get Living's Portlands Place at East Village, which have both seen lease-up rates averaging more than 100 units per month during Q3 2022. That is more than five times the pre-pandemic average for large London BTR schemes.

Those might seem like the extreme examples but nevertheless, performance has been breath-taking across the board, from Comer Homes' Mast Quay in Woolwich to Vertus's high end blocks around Canary Wharf which have stabilised well ahead of expectations.

As a result, just 11 BTR developments are actively being leased up at the time of writing and they have fewer than 800 units left to be let between them. That is peanuts compared to a total of 6,400 BTR units that leased up during the first three quarters of 2022.

Forthcoming launches such as Greystar's Bloom in Nine Elms and the first phase of Unibail-Rodamco-Westfield's behemoth Coppermaker Square will do little to relieve the situation as projected BTR build completions are set to fall in 2023. That is unless someone makes a few major bulk purchases soon ...

New Homes Sales

London's new homes market absorbed 5,250 units during Q3 2022. That is a very good number and was spread across a variety of buyer segments as shown in the table below.

	<£800 PSF	>£800 PSF	Total	Percent
Schemes selling <12 units in Q3 2022				
Homes sold in these schemes	**346**	**363**	**709**	**13%**
Schemes selling 12+ units in Q3 2022				
Main Driver of Sales				
Build to Rent	1264	829	2093	**40%**
Help to Buy	1015	133	1148	**22%**
Overseas	120	536	656	**12%**
Switched to affordable	305	0	305	**6%**
Normal UK Sales	5	185	190	**4%**
Bulk deal	0	152	152	**3%**
Homes sold in these schemes	**2709**	**1835**	**4544**	**87%**
Total Homes Sold	**3055**	**2198**	**5253**	**100%**

In many ways the table shows a familiar status quo – it has looked much the same for several years:

- BTR has been the leading segment in both lower and upper price bands
- With Help to Buy as the runner-up at the cheaper end of the market,
- And overseas sales coming second at the more expensive end.

However, the absorption segments will look very different in 2023. Help to Buy has all but come to an end and we are now going through a mini-budget-induced financial upset. Interest rates were widely anticipated to rise incre-mentally over the next six to 12 months, but a structural shift seems to have happened in just two weeks.

Help to Buy

The writing has been on the wall for Help to Buy for some time and so for most sales teams the priority has long been to get shot of qualifying stock before the end of October. That time pressure meant cutting more deals than normal … but such deals have become more painful in the last few weeks. Stories of buyers whose mortgage offers have become unaffordable overnight are all too common.

What happens next is a matter of some debate, but several key themes have emerged from our recent conversations with 500+ developers and agents.

Pricing

Some housebuilders are blunt in their broad assessments: even before the mini budget, London was simply unaffordable to first time buyers without Help to Buy or a replacement. Some developments would not have been built without the incentive and transactions were already expected to drop in TfL Zones three to six, which have been heavily reliant on it. The exception is locations with a good enough story to sell to other segments.

Nobody wants to talk about a drop in prices, which is either avoiding the elephant in the room, or hints at other plans.

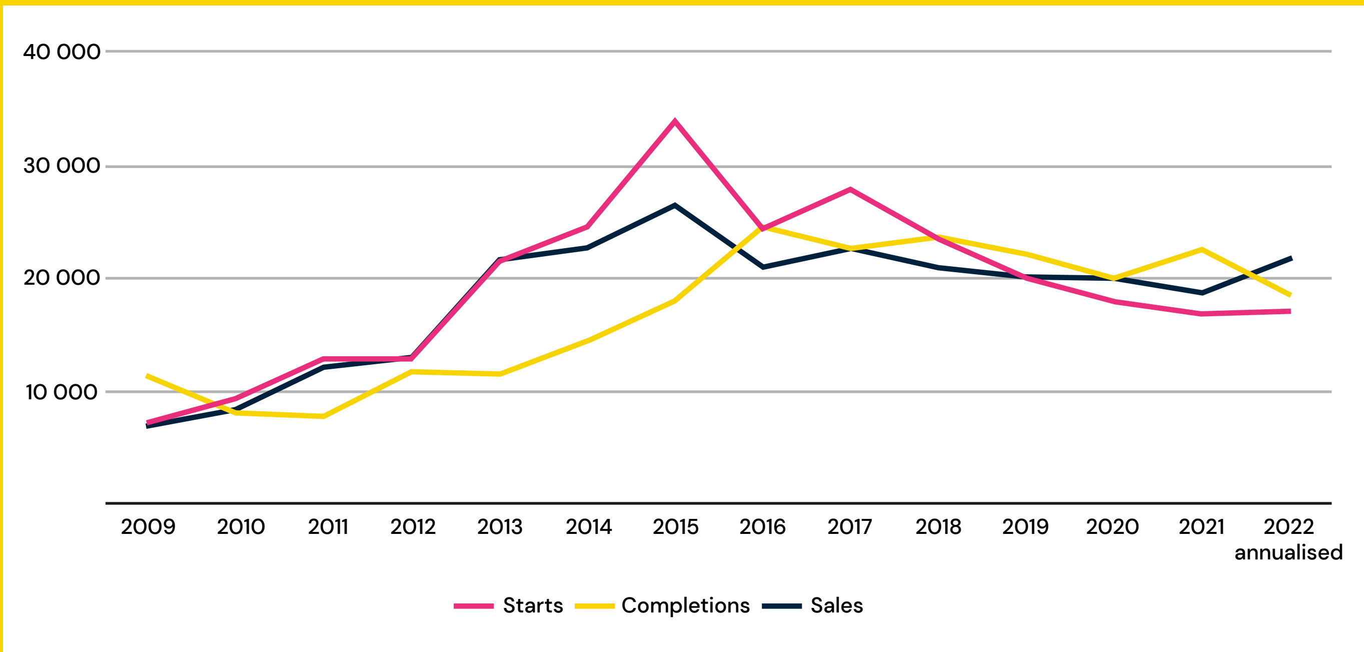
Construction

Construction will only start on projects where developers and funders expect that the homes can be sold profitably, and developers are already voting with their feet. Strip BTR out of the numbers and construction starts have declined dramatically during 2022. There were just 1,700 non-BTR starts during Q3 2022, which might have looked good in 2009, but not since. Outer London has born the brunt of this decline.

Examining the 1,700 starts further it can be seen that almost 300 have switched to affordable. The remainder have generally either been extensively sold prior to start or are being built by very well-funded developers.

The three biggest examples of construction starts during Q3 2022, by number of private units, are:

- London Square's Plots F and G at Nine Elms Parkside, which contain a total of 459 units, including 197 BTR units for Moda Living, and 186 private sale units which are yet to be launched.
- Telford Homes' International Way in Stratford, which is 380 units including 247 BTR units and 54 DMR units, both being built for L&G.
- L&Q's Citroen Brentford site which is now being built out in partnership with Hill and is 441 units, of which 227 are designated for private sale and have not been launched – we guess scope remains for a partial switch to BTR or other tenures at some point.



Marketing Overseas

The only type of buyer to see a positive in recent financial turmoil are those for whom a falling pound is a good thing, in particular those buying with US dollars. Unsurprisingly, therefore, there has been talk of increased interest from US buyers, but only at the super-prime end of the market.

Having said that, some developers have recently managed to sell well in the Far East, and these fall into two camps.

Firstly, rapid-sell: the highest profile case is probably Mount Anvil, which launched three schemes in as many months over the summer, and sold the lion's share of the units involved without putting a shovel in the ground.

A different example is set by CC Land, which is widely rumoured to have done many bulk deals at Thames City in Nine Elms – selling off one or more entire floor plates each time. The key point about these rapid marketing campaigns is that pricing, while secret, is key.

Secondly, slow-sell: the likes of Berkeley and Barratt have invested in overseas offices and marketing channels to cater for the steady drip of overseas buyers that is now more normal. Much is made of Hong-Kongers looking for nearly complete stock that they or their children can move into. Those buyers are interested in developments across the price spectrum.

Marketing Overseas continued...

Barratt's Hayes Village and Eastman Village are good examples of former Help to Buy schemes that sold 20 and 40 odd units respectively during Q3, largely to overseas buyers.

So, overseas marketing has made a healthy contribution to sales volumes. However, the numbers involved will not substitute for Help to Buy and the route is also not for everyone:

- Many developers may want, or need, to secure higher prices than would stimulate a rapid-sell.
- They also do not have the pipeline or budget to merit going for the slow-sell approach.
- Overseas deals are easy enough to get to exchange, but completions take time due to the complexities of international mortgages and money transfer in some regimes. Consequently, we are told that it is sensible to allow for six months between serving completion notices on international buyers and getting all the money in.
- Geo-political risks are growing.

Corporate Deals

Looking forward, many developers have been looking to 'restructure' future projects with a view to doing more bulk BTR and Housing Association deals. Such deals mitigate market risk and can also provide forward funding.

BTR strategies are well supported by the data described at the start of this report. However, there is also much talk of cost inflation in all parts of the BTR lifecycle, and the resulting impact on yields. The rapid changes in interest rates and the broader financial markets may also alter the thinking of institutional investors eyeing up a broad range of asset classes.

Meanwhile, some developers have talked with unfamiliar warmth of the benefits of shared ownership, as well as the successes of previous dealings with the Housing Association sector.

As with many other factors, such considerations are more suited to those developing larger projects, and the deals can take time to come to fruition.

Re-focusing towards 'normal' sales

For stock that would once have qualified for Help to Buy, but has now missed the boat, both marketing and construction efforts have been pushed into the long grass as far as possible. A very small number of large schemes are proceeding intentionally unlaunched because the well-funded developers concerned are keeping their powder dry - they do not want a mediocre sales launch to scupper chances of an un-broken block deal down the line.

Looking to the longer term there is talk of a number of industry-derived alternatives to Help to Buy:

- 'Deposit Unlock' schemes used to be fairly common before Help to Buy, but are of limited use in London because mortgage affordability is the over-riding issue for most first time buyers.
- There is some expectation that PLCs with FSA accreditation may come up with an alternative shared-equity product. However, this would involve the housebuilders taking a range of unfamiliar risks and we do not get the impression that anyone has a product ready yet.
- Instead, some of the main house builders are reported to have signed up to a mortgage indemnity product called Own-New introduced by Market Mortgage. Meanwhile Proportunity is an emerging independent shared-equity product. However, neither alternative has yet been used and neither would match the 40% contribution provided by Help to Buy – Own-New would provide 10% and Proportunity would provide 25%.

Planning and viability

None of London's largest housebuilders operate purely in London anymore and many refer to their projects in the Home Counties and elsewhere in glowing terms compared to schemes within the capital. Aside from better affordability, the greater ease of gaining viable planning permissions outside London seems to come up every time.

Changing circumstances mean that many developers are bracing themselves for renewed and protracted viability discussions. In some cases, such negotiations are already happening, occasionally with large amounts of construction put on hold while matters are resolved.

There are also a couple of examples of Local Authorities effectively being forced to buy private units out of regeneration joint ventures to ensure that the projects proceed. In both those cases the private units are now being delivered as affordable, which will be a victory for some, but puts aside the original social and economic reasons for introducing private units in the first place.

The cold reality for London's local authorities looking to achieve housing delivery targets is that residential development is no-longer the de-facto most profitable option for landowners when existing uses come to an end. There are plenty of examples of significant and hard-won residential permissions being put aside to make way for logistics or other uses.

Concerns for smaller developers

Many of the options described above are things that bigger developers have been weighing up for a while. However, smaller companies may be placed in considerable difficulty, particularly for projects that are currently under construction and have missed the Help to Buy deadline.

Often it is these types of developers that have come up with the most eye-catching incentives to ensure sales are scored within the Help to Buy deadline. Hopefully the construction teams involved are able to meet their side of the challenge.

In recent years the most common approach for smaller developers unsatisfied with achieved prices or sales rates was to simply rent the units rather than sell them. In some cases it is said that developers have been so impressed with current rental levels that they have cancelled Help to Buy deals to go purely down the rental route. However, the viability of a rental exit presumably depends on the cost of investment phase finance. Rising interest rates may jeopardise the rental route in future and may scupper existing small rental projects when they next come to be refinanced.

Gaining small project finance on a project-by-project basis is expected to become increasingly difficult. Market risks will presumably have to be significantly mitigated prior to start, which could place limitations on the type and location of projects that eventually get underway.

Conclusion

So, in summary, the future holds more uncertainty for many of London's residential developers than during any other period in recent memory. Companies have had time to plan for the end of Help to Buy but nobody was looking for a sudden financial crisis.

Nevertheless, London's larger developers are well funded and well managed, mostly by people who have weathered storms before. They have already started the process of adapting and continue to have options available.

Matters will be considerably harder for smaller players. Some will find their options dwindling through no fault of their own, while others may simply have taken risks best avoided.

Period	Starts	Completions	Sales
2009: Q1	1,254	2,414	1,464
2009: Q2	3,118	4,782	1,840
2009: Q3	1,546	1,288	1,549
2009: Q4	1,282	2,778	2,031
2010: Q1	1,928	2,106	1,866
2010: Q2	2,268	1,795	2,123
2010: Q3	2,391	2,037	2,177
2010: Q4	2,718	2,161	2,184
2011: Q1	5,107	1,225	2,872
2011: Q2	2,257	2,138	2,110
2011: Q3	3,397	2,264	3,907
2011: Q4	2,062	2,100	3,193
2012: Q1	2,880	2,597	3,662
2012: Q2	3,028	3,333	2,666
2012: Q3	3,063	2,141	2,813
2012: Q4	3,858	3,603	3,822
2013: Q1	4,740	2,321	5,743
2013: Q2	4,332	2,937	4,510
2013: Q3	6,077	3,036	5,452
2013: Q4	6,245	3,188	5,884
2014: Q1	5,189	2,799	4,964
2014: Q2	6,099	4,373	5,434
2014: Q3	5,590	3,573	5,607
2014: Q4	7,533	3,688	6,600
2015: Q1	9,735	3,832	8,573
2015: Q2	7,573	3,850	6,574
2015: Q3	8,156	5,531	5,589
2015: Q4	8,311	4,735	5,589
2016: Q1	6,238	4,698	5,859
2016: Q2	5,124	5,877	4,649
2016: Q3	7,000	6,740	4,994
2016: Q4	5,882	7,154	5,368
2017: Q1	6,495	6,493	5,537
2017: Q2	7,080	4,818	5,950
2017: Q3	7,663	5,406	5,852
2017: Q4	6,528	5,820	5,130
2018: Q1	6,554	4,463	6,442
2018: Q2	7,173	5,665	5,095
2018: Q3	3,591	6,356	4,210
2018: Q4	6,032	7,088	5,076
2019: Q1	5,881	4,820	5,051
2019: Q2	3,599	5,274	4,620
2019: Q3	5,150	5,889	4,591
2019: Q4	5,324	6,057	5,750
2020: Q1	4,768	6,112	5,919
2020: Q2	3,312	3,103	3,865
2020: Q3	4,935	5,153	5,840
2020: Q4	4,859	5,569	4,185
2021: Q1	2,653	5,653	3,802
2021: Q2	3,722	6,423	4,466
2021: Q3	4,654	4,360	5,045
2021: Q4	5,776	6,009	5,263
2022: Q1	5,632	4,137	6,000
2022: Q2	3,558	6,296	4,949
2022: Q3	3,574	3,427	5,253

The Numbers

During the last few weeks Molior London has interviewed the developers behind the 644 schemes being built or with stock units across London. We do this each quarter.

Please note this report excludes schemes with fewer than 20 private homes and all numbers refer to units consented for private sale only.

The graph on page 5 and table opposite show starts, completions and sales across all London local authorities since 2009.

The smaller table on page 3 shows the main driver of sales for schemes that sold 12 or more units during Q3 2022.

Construction

- 3,570 units commenced construction across London during Q3 2022.
- That is about the same as Q2, but down from 5,630 in Q1, and down on a quarterly average of 5,290 over the five years from 2017 to 2021.
- 1,870 of the starts in Q3, 52%, were for BTR, leaving 1,700 for other segments.
- That compares with 2,240 non-BTR starts in Q2 2022, 4,250 in Q1 and is the lowest number since Q4 2009.
- 3,430 units completed construction across London during Q3 2022.
- That is down from 6,300 in Q2 and down on a quarterly average of 5,530 over the five years from 2017 to 2021.
- 53,900 units were under construction at the end of Q3 2022 – 2% down on the end of 2021 and 17% off the 2017 peak.
- 27% of all units underway are for BTR.

Sales

- 5,250 units sold across London during Q3 2022.
- That is up from 4,950 in Q2, and just up on the quarterly average of 5,080 over the five years from 2017 to 2021.
- 2,090 of the sales in Q2, 40%, were accounted for by BTR.
- 44% of units under construction are unsold, down from 49% at the end of 2021.
- In addition, there are 3,000 completed unsold 'stock' units across London - broadly as has been the case since the end of 2020.
- 4,590 BTR units will complete in 2022 including projections for Q4. That compares to 7,860 in 2021 and a projected 4,260 in 2023.

Pricing

- The average new build completion price for homes in London sized from 291 to 450 sq ft (studios, in broad terms) since April 2021 was £382,000 or £926 psf.
- For homes sized from 451 to 650 sq ft (1-beds) it was £488,000 or £864 psf.
- For homes sized from 651 to 850 sq ft (2-beds) it was £610,000 or £802 psf.
- For homes sized from 851 to 1050 sq ft (3-beds) it was £764,000 or £819 psf.

BTR lease up rates

- During 2019, 17 schemes with 50+ BTR units stabilised, at an average rate of 21 units per month.
- During 2020, eight schemes stabilised, at an average of 11 units per month.
- During 2021, 32 schemes stabilised, at an average of 12 units per month.
- During the first three quarters of 2022, 31 schemes stabilised, at an average of 31 units per month.
- Seven schemes have both launched and stabilised within 2022, at an average of 71 units per month.
- At the end of Q3 a total of 1,000 completed BTR units are available to be let. 770 are being actively marketed, 230 await launch.

Any Questions...

Incredibly detailed scheme-by-scheme information and can be found on the Molior database, together with regional graphs and borough-by-borough tables showing a range of residential development datasets going back to 2009. Instructions for how to access these graphs and tables are shown on the final page. If you need log-in details please get in touch. Our mobile numbers are below - if you have any questions whatsoever, please do not hesitate to call us.

Sam Long and Tim Craine, 18 October 2022

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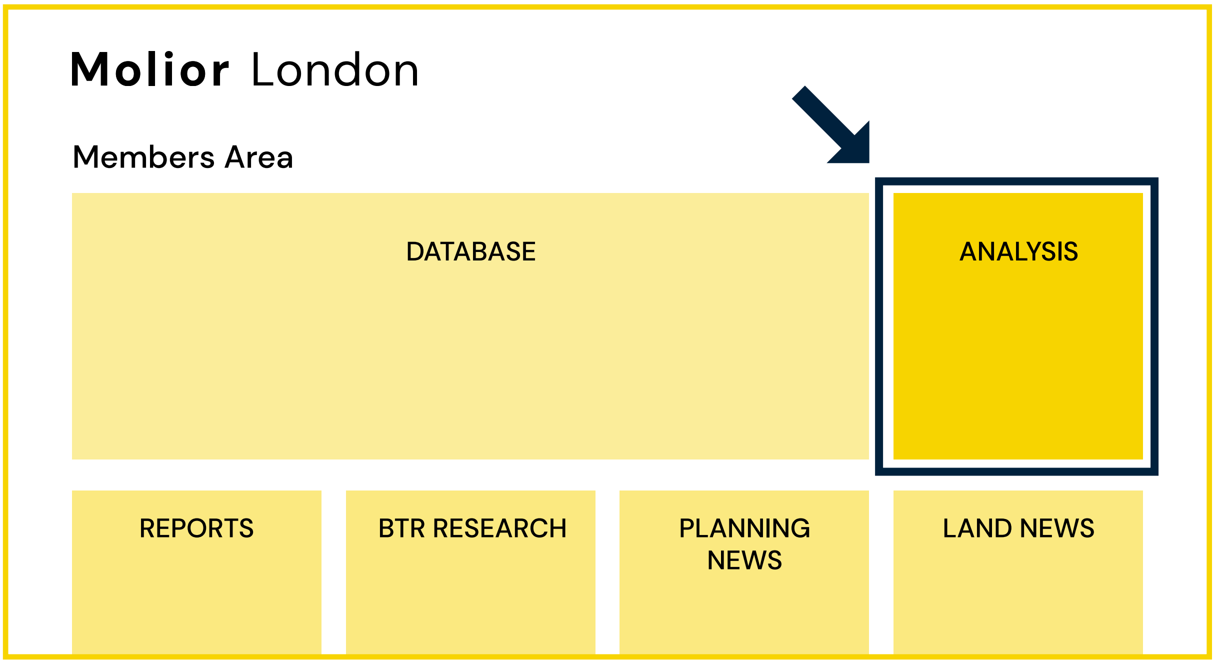
How to find Molior's detailed graphs...

1. Log in to Molior - if you need log-in details please get in touch.
2. Click through to the **Members Area**.
3. Click on **Analysis**.



4. Select dataset that you want to view.